Distr.
GENERAL

IDB.21/8
PBC.15/8
3 March 1999

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Industrial Development Board

Twenty-first session
Vienna, 23-25 June 1999

Programme and Budget Committee

Fifteenth session
Vienna, 14-16 April 1999
Item 6 of the provisional agenda

INDUSTRIAL DEVELOPMENT FUND AND OTHER VOLUNTARY CONTRIBUTIONS

Report by the Director-General

Reviews the current resource mobilization pattern of the Industrial Development Fund and other voluntary contributions, describes the programming orientation for 1999, 2000 and 2001 and presents innovative modalities for resources mobilization to increase funds available for the implementation of priority programmes and their effectiveness.

CONTENTS

	Paragraphs	*Page*
Introduction	1-2	2
Chapter		
I. PROGRAMMING ORIENTATION, 1999-2001	3-5	2
II. INNOVATIVE MODALITIES FOR FUNDS MOBILIZATION	6-11	2
III. ACTION REQUIRED OF THE COMMITTEE	12	3

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

V.99-81563 (E) (a: 1999.PMO.1)

Introduction

1. The Industrial Development Fund is the central mechanism for extrabudgetary funding for UNIDO technical cooperation activities. Together with the trust fund mechanism it provides UNIDO with the main sources of funds that, in consultation with the respective donors, can be used to enable the Organization to deliver its key products to Member States. The importance of extrabudgetary financing and the speed and flexibility of its programming are underlined by the limited resources available in the regular budget for technical cooperation. Sufficient and flexible resources are critical if the new integrated programmes and focused service modules of UNIDO are to be implemented successfully and achieve their impact.

2. The present document should be considered in conjunction with the *Annual Report of UNIDO 1998* (IDB.21/10-PBC.15/10), chapter VIII of which provides information on the mobilization of funds for UNIDO services, including an overview of approval distribution by source of funds covering the period 1992 to 1998. In addition, the programme performance report for 1998 (IDB.21/11-PBC.15/11) provides in appendix C information on contributions to and approvals under the Industrial Development Fund, and in appendix D on trust fund approvals.

I. PROGRAMMING ORIENTATION, 1999-2001

3. With immediate effect, and for the next biennium, priority will be given to financing programmes and projects developed within the packages of integrated UNIDO services and under the service modules. The service modules on which UNIDO will focus are grouped under the "three Es":

Competitive economy

- Industrial policy formulation and implementation
- Statistics and information networks
- Metrology, standardization, certification and accreditation
- Continuous improvement and quality management
- Investment and technology promotion

Sound environment

- Environmental policy framework
- Climate Convention and Kyoto Protocol
- Energy efficiency
- Rural energy development
- Cleaner production
- Pollution control and waste management
- Montreal Protocol

Productive employment

- Policy framework for small and medium-scale enterprises
- Policy for women's entrepreneurship development
- Entrepreneurship development
- Upgrading agro-industries and related technical skills

In terms of geographical distribution, priority will be given to Africa and least developed countries.

4. Under each service module, the Secretariat has developed or is developing a clear concept and approach and has established clear focal points within the Organization. As defined in the Business Plan, the new approach consists of developing in close consultation with recipient countries, an integrated package of activities to respond to their priority requirements. These integrated packages will normally incorporate parts of different service modules and require a team approach for their implementation. This approach will also allow early but specific consultation with potential donors, both in the field and with their headquarters, with a view to ascertaining their interest and early cooperation.

5. The new service module-based approach is built on the competitive strengths of the Organization, intensive consultation with beneficiaries, government officials and other relevant parties, cooperation with other United Nations agencies and donors and effective teamwork within the Organization. It is expected to lead to higher quality proposals that are more responsive to real needs and that will result in much higher impact. Packages will often be large, requiring multi-donor funding. The approach is expected to lead to new forms of donor cooperation on the basis of agreed programmes developed by UNIDO.

II. INNOVATIVE MODALITIES FOR FUNDS MOBILIZATION

6. A major weakness of the traditional way in which UNIDO has had to work is the fact that projects were developed with no financial backing, i.e. when developing the proposal it was not yet known from where resources would come to finance the project, or even whether

resources would be available at all. This situation affected the credibility of the organization and the interest and motivation of national partners. After formulation it could take one year or more before an interested donor could be identified, the required agreements finalized, and activities started, seriously affecting again the interest of local partners as well as the design validity.

7. The main source of funding for the first activities and often central components of the new integrated packages should be the Industrial Development Fund (IDF). Such components will frequently deal with sensitive issues of a policy nature, and funding from and execution by a United Nations organization is often the most acceptable option. The ability to rapidly fund and start with core components of a programme is essential, not only for the credibility of UNIDO versus its partners, but also for attracting financing from other sources, including the United Nations Development Programme (UNDP), third-party and self-financed trust funds, and bilateral sources.

8. Special attention will therefore be given to the development of more flexible arrangements with donors enabling UNIDO to programme the contributions, approve projects and start implementation without extensive and time-consuming negotiations on details of individual projects and agreements. The general-purpose convertible segment of IDF (the programmable "convertible pool") is essential for financing the development phase and first activities without excessive delay. Sufficient contributions to this component are therefore of the highest importance to enable UNIDO to respond rapidly to requests for the development of the integrated packages. Donors will be approached to provide at least part of their contributions in the form of programmable or semi-programmable funds. This can be done by providing contributions to the convertible pool of IDF or by targeting specific service modules and/or regions but allowing UNIDO to actually select the project and approve it. In addition to the above outlined advantages, it will dramatically speed up the project cycle and decrease the cost both to UNIDO and donors.

9. For individual service modules cooperation will be sought with ministries of donor countries responsible, for example, for environment, trade or economic affairs, as well as with the European Union. Moreover, cooperation with such multilateral funds as the Global Environment Fund and the Common Fund for Commodities concentrating on individual service modules is expected to lead to increased funding for UNIDO activities.

10. When developing larger packages of activities at the country level, UNIDO will actively approach the local embassies of major donors already in the formulation stage. In view of the attractiveness of the programme concept and the multi-donor funding, this is expected to increase cooperation with donors and enhance access to bilateral funds. This will be done in close cooperation with the recipient Government, underlining the joint responsibility for mobilizing funds.

11. New initiatives will be undertaken in relation to the private sector. Companies and other organizations may be invited to sponsor projects. Sponsorship may include trust fund financing or contributions in kind, either for the whole project or cost-shared with other sources. For this type of funding it is also expected that components of larger integrated programmes will be more attractive than stand-alone projects.

III. ACTION REQUIRED OF THE COMMITTEE

12. The Committee may wish to consider recommending to the Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the information contained in document IDB.21/8-PBC.15/8;

"(b) Decides to delegate to the Director-General the authority to approve projects for financing under the Industrial Development Fund in 2000 and 2001 in accordance with the information contained in that document;

"(c) Encourages Member States and other donors to increase their voluntary contributions to UNIDO, and specifically to the Industrial Development Fund;

"(d) Also encourages donors to contribute programmable funds, specifically to enable UNIDO to implement the new approach as called for in the Business Plan, based on the service modules and integrated programmes referred to in chapter II of document IDB.21/8-PBC.15/8;

"(e) Further encourages Member States to cooperate with UNIDO also in respect of bilateral sources of funds at the country level, specially for co-funding the integrated programmes;

"(f) Encourages Governments of recipient countries to play an active role in sharing with UNIDO the responsibility to mobilize funds for jointly-identified high-priority products from sources available to them."